

FISCAL NOTE

Bill #: HB143

Title: Revise income tax laws for pass-through Entities

Primary Sponsor: Roger Somerville

Status: Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
Revenue:		
General Fund	\$0	\$1,185,000
Net Impact on General Fund Balance:	\$0	\$1,185,000

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget		X	Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. This bill applies to tax years beginning after December 31, 2001 (TY2002).
2. This bill would increase revenue from the individual income tax by: 1) statutorily requiring partners, shareholders, managers, and other members of pass-through entities to include their distributive share of income, and furnish copies of federal schedules of those shares of income, when filing Montana individual income tax returns; 2) allowing partnerships and S-corporations the option of filing composite tax returns and paying any tax liability due for those members consenting to be included in the filing; 3) requiring the electing entity to make quarterly estimated tax payments; 4) and requiring pass-through entities that are required to file an informational return to withhold and remit tax on partners or shareholders who are nonresidents, or file a composite return on behalf of the partners or shareholders.

(continued)

3. Based on an analysis conducted by the department's pass-through entities *ad hoc* team, it is estimated that this bill will increase individual income tax revenue \$1.3 million per year.
4. The bill also provides that a resident taxpayer is entitled to a credit against individual income tax for the *pro rata* share of income taxes paid to another state or country by an S-corporation of which the individual is a shareholder. Based on case studies conducted by the department, this credit is estimated to reduce individual income tax revenues by \$115,000 each year.
5. The impacts of this legislation will occur in full in tax year 2002 and in fiscal year 2003.

FISCAL IMPACT:

	<u>FY2002</u> <u>Difference</u>	<u>FY2003</u> <u>Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$0	\$1,185,000
 <u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	\$0	\$1,185,000